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Economic Conditions
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General Business Conditions.

THERE are signs of improvement in the business situation, and while for the most part they relate to seasonal conditions, some of the changes are indicative of a gradual restoration of the industrial equilibrium which is necessary to permanent prosperity. The shoe industry and the cotton and woolen goods industries are now generally active. After nearly a year of light business retail stocks were worked down to a state which made it necessary for dealers to buy for their current trade. Raw cotton has advanced in a little over a month from about 11 cents per pound to about 20 cents, and this has put strength into the goods market and encouraged buying. Cotton goods, however, have not advanced to correspond with raw cotton, and although the mills having stocks of 11 and 12 cent raw material on hand are able to work them up and sell the goods, the pinch will come when they have to buy cotton at the new quotations and advance the price of goods accordingly. There are serious misgivings in the trade about the maintenance of the present activity when that time comes. High grade wool is reported firm and a little higher in both foreign and domestic markets. Retail merchants are vigorously opposing advances in all textiles and insisting that lower prices are necessary to create a good volume of trade. The situation is unsettled, with opinion spreading that costs must be reduced both in the manufacture of cloth and in the garment trades.

In many lines there is a stir of increased activity, attributable to fall trade. Crop moving is not, however, affording the normal stimulus, owing in part to the low prices of farm products and in part to the fact that the proceeds are going largely to pay old debts. However, there is a more cheerful feeling as debts are paid or reduced. There is not enough business to go around, which makes competition sharp, with profits at the minimum. Building operations are somewhat enlarged. The iron and steel industry has more to do, and there have been advances in some lines, but declines in others. For the week of September 15, The Iron Trade Review composite market average of 14 different products was $35.56, which compares with $35.35 for the week preceding, and $35.53, two weeks previously, with an average of $35.99 for August, $68.86 for September, 1920, and $25.55 for September, 1913. Cement prices have been reduced. Wage reductions continue to be made, and are gradually readjusting the situation to a state where increased employment will come naturally and on a permanent basis.

The consumption of cotton during August was the greatest in any month since August, 1920, reflecting an increased demand for cotton goods. Woolen mills are reported to have sufficient orders on their books to insure full time operations until next Spring. The production of silk goods, for which there is no available index for the United States as a whole, has continued to decline somewhat. Mills in this district were operating at about 30 per cent of capacity in September as compared with 40 per cent in August and nearly 60 per cent in the Spring.

The following table gives the available figures for monthly production as percentages of normal production. Allowance has been made for the normal increase in production from year to year and the normal seasonal variation from month to month.

(Normal production = 100)

	Average Jan.-March	July	August
Anthracite coal mined........	107	94	92
Bituminous coal mined........	64	61	63
Pig iron production	58	26	28
Steel ingot production..........	58	26	36
Zinc production	52	40	38
Lead production	66	63	....
Tin deliveries	31	30	64
Copper production	67	13	16
Gasoline production	103	84	....
Cement production	79	89	89
Cotton consumption	62	64	75
Wool consumption	70	97r	96p
Wheat flour milled................	89	148	174
Sugar meltings	85	84	106
Meat slaughtered	90	88	113

p—Preliminary
r—Revised

The Cotton Crop

We have pointed out from month to month that the restoration of normal industrial and trade conditions waits on the restoration of normal relations between the products of the farm and other primary products on the one hand, and manufactured goods and transportation charges on the other hand.

The rise of cotton to about 20 cents per pound has had a revivifying effect upon the South. The following extract from a letter from a valued correspondent bank in South Carolina, illustrates the general character of reports from the cotton belt:

> The recent advances in cotton have had a very beneficial effect in this section; the farmers, who are all holding a part of last year's crop are feeling more optimistic and if they can realize 20 cents or better for their cotton they will be in a position to liquidate their indebtedness and in numerous instances have a surplus. In fact we believe the events of the past year will eventually prove a blessing in disguise as crops next year will be diversified. There is a better feeling among the textile mills, all of which are running full time and some night and day. We think practically all of the mills are once more on a profitable basis.

The psychological effect of 20 cent cotton is good in the cotton growing districts, and as indicated in the above extract there is a real benefit to the holders of last year's cotton. Moreover, the clearing up of the carry-over, which has been increasing from year to year as a result of diminished consumption abroad, should tend to put the cotton-growing industry in a better situation for the future. After this is said, however, the fact remains that the loss of a large part of a staple crop from unfavorable weather and an insect pest is certainly not an unmixed blessing.

It must be remembered that a rise of price on a half crop is a very different thing from a rise of price on a full crop. About one-half of the reduction in yield is due to the reduction of acreage and the other half to the weather and the boll weevil. The acreage diverted from cotton was put into corn and other grain crops, which probably was good policy but at the expense of the farmers in other parts of the country, and the reduction effected by the weather and weevil is a dead loss to somebody. The farmer plowed and cultivated the land and expended as much labor upon part of a crop as though it had made a full crop.

Here is a telegram, clipped from a column of like reports, which illustrates the situation of some of the growers:

> Ada, Okla., September 6, to Weld & Co.—Denison, Madill, Ada, cotton almost entire failure; stock in some fields will not average bale to fifteen acres, half of field will not need picking. Found from three to ten weevil in shuck around small bolls.

It is difficult to get up any optimism as to general business prospects over this kind of news. The people of Asia, South America and Europe, who are counted upon to buy about one-half our normal cotton production, hardly will be able to buy as many cotton goods on a 20 cent basis as they would buy on an 11 cent basis, and the same is true of our own people. Certainly if they buy as many cotton goods at the one price as they would buy at the other they will buy less of something else. Somebody will come out short because of the short crop, and it would seem to be sound reasoning that if the farmers of the South had a larger crop at no greater cost they would be as well off at a lower price, while the rest of the world would be better off.

The Wheat Situation

The wheat crop of the United States and Canada stands at latest estimates about the same as a year ago, and the world's crop is about the same as last year. The movement of the crop to market has been very heavy both in this country and Canada, and exports exceptionally large. The United States Government reports the exports of domestic wheat and flour in August as equal to 66,695,000 bushels, more than double the exports of August, 1920, and making a total for July and August of 97,000,000 bushels. September will bring the total since July 1st to about 135,000,000 bushels. This is taking our surplus very fast. The market fluctuated during September over a range of about ten cents per bushel, closing the month at about where it began, and losing the gains on the news of general rains in Argentina. The latter fact is of some significance in connection with the attempt to stabilize the price of wheat in this country by means of a duty of 35 cents per bushel. With our wheat selling in Europe in competition with wheat from Canada and Argentina, a rainstorm in the latter country has more influence on the markets of this country than the enactment of Congress.

It has been recognized in well-informed quarters throughout the last two months that the price of wheat between now and the next harvest depends largely upon the crops in Argentina and Australia, two countries which have their harvests in our winter season. Neither of these countries ships wheat to the United States, but their surplus competes with ours in Europe and the price of the surplus makes the prices everywhere. In view of the prospect for light sowings in Russia this fall and no surplus there next year, it would seem to be good policy to sow a larger acreage of wheat in the United States this fall.

Quality of Spring Wheat

The spring wheat yield is not large, perhaps not over 200,000,000 bushels, and it has been damaged in spots by rains, but the best authorities say that reports of its being generally of poor quality for bread-making are erroneous and that in fact the protein content this year is above the average.

Other Farm Products

A big corn crop has matured, and with a large carry-over there is more corn in sight than ever before. This has depressed the price to the lowest point recorded by the Chicago

market since January, 1913. Exports are heavy, but Europe is not accustomed to the use of corn, and at best exports are but a small percentage of the crop.

The hog market has been going the wrong way, from the farmer's standpoint, for the last month. In August the price was above $10 per hundred weight in Chicago, from which a decline of approximately $2 has taken place, to the lowest figures since 1916. The market for corn-fed cattle has been fairly good, but grass cattle have been in over-supply, and yielding unsatisfactory returns.

Oats are about as they were at the beginning of September. The yield was of light weight generally in the states producing the bulk of the crop, and the gross cash return per acre is reported at about $2.50 to $3.00.

Dairy products have been doing considerably better than in the early part of the summer, but are about one-third lower than at this time last year. The drought in Europe was a favorable influence, and butter values are 10 or 12 cents per pound above the low point of last June. Eggs have made a good recovery and promise to bring good figures through the winter.

The Foreign Market

There is no reason to complain of exports of farm products at this time. In the month of August for the first time this year they exceeded in value the amount for any corresponding month of 1920. Exports of meat and meat products are doing particularly well, running above those of the corresponding months of last year and of pre-war years.

These exports are entitled to attention in view of the suggestion occasionally made that this country can get along without Europe and enjoy prosperity within itself. It is true that our exports amount to a small sum in value compared with the total of our domestic trade, and true also that the existing state of unemployment in this country could be largely corrected by a readjustment of industrial costs, but the fact remains that agriculture and the primary industries are developed far beyond the consumptive needs of this country. We consume only about one-half of a normal cotton crop, and the exportable surplus makes the price for the full crop. The farmers of the South have shifted a moderate part of their acreage to corn this year, and their action has helped to depress the price of that grain. Now the farmers of the principal corn states are discussing the feasibility of reducing the acreage in corn by agreement. It would require a drastic readjustment of the industrial organization and of existing property values to make this country independent of Europe, and it is safe to assume that few people are going to direct their own business with that end in view.

The Unbalanced State of Industry

It does not appear that the position of agriculture or any of the primary industries is generally improved. The cotton-producers have gained by the increased value of their carry-over, tobacco and dairy-products are bringing better prices, and wheat is on a remunerative basis, but all live stock is down to about pre-war prices. Taken as a whole the prices of farm products are so far out of line with the prices of manufactures and charges for transportation that the usual exchanges cannot be made. Hence the state of unemployment in the industrial towns.

We have a letter from M. R. Benedict, Secretary of South Dakota Farm Bureau Federation, at Huron, in which he writes as follows of the effects of present freight rates upon farm products grown in that state:

Feed barley shipped from Central South Dakota points, brings 42c on the Minneapolis market, and the rate is, I believe, 22½c per hundred, or about 11c per bushel; in other words, more than 25% of the selling price of the product in the terminal market and nearly 50% of the return that the farmer receives. Oats are bringing at small towns around this locality, 15c per bushel. It costs 8c per bushel to ship them. There is of course very little advantage to the farmer in even threshing them to say nothing of hauling them to market. The conditions with regard to corn are very much similar. The return on all of these crops is far less than the actual operating cost of growing them and there are probably not 10% of the farms in this state that made actual operating expense this year.

This is a problem that must be considered it seems to me, not alone from the standpoint of present effect, but also from that of the future. There is little question but that a continuation of present conditions means that 25 to 35% of farmers in all of these states of the West, even in centrally located states like Iowa and Illinois, must go out of business next year. They simply cannot get sufficient return from this year's crop nor credit, to go on with next year's production. There is little question but that these western railroads must have volume of business in order to be profitable. If much of the western country goes back to range conditions, no rate that can be applied will make these railroads profitable.

*** * * Evidence was introduced in the recent hearing at Washington to show that Wisconsin alone could absorb from four hundred to six hundred thousand tons of alfalfa hay if it could be gotten there at a price that would justify the dairymen in feeding it. The return to the grower of alfalfa hay in western South Dakota, which is normally a heavy exporter of this product, is now from 45c to $1.50 per ton. It costs $3.50 per ton to bale this hay to say nothing of raising it and hauling it to the car. Consequently, he is without choice in the matter of handling it, and must let it stand in the stacks. In fact, I know of several cases where hay already baled is left right in the fields because it does not pay to haul it to the cars. Yet there are other sections even within this state where that hay is badly needed. Reliable reports from western South Dakota counties indicate that there is from 85 to 90% of the 1920 alfalfa crop still on hand.**

The disposition of this large excess crop that would be of greatest benefit to the country as a whole would be to find means for feeding it to livestock and thus in a certain sense, store it up for future use in the form of livestock and livestock products. Livestock is the natural shock-absorber for under and overproduction of farm crops. But freight rates at present are damming up the natural interchange of these products to such an extent that there will be this year very serious shortages in sections not greatly distant from large oversupplies.

The above is a sample of many letters, and while the writer may be a little extreme in his prediction of abandoned farms in Iowa and Illinois, unquestionably his statement of facts is substantially correct. The railroad companies are not interested in maintaining rates under which traffic cannot move, and have made many reductions since the last increase was made, for the purpose of stimulating traffic. More are understood to be in contemplation, but in some way the railroads must obtain revenue sufficient to meet operating expenses, and pay a sufficient return upon the capital investment to induce the further investment in their securities which is necessary to maintain and improve the properties. The farmers themselves are as much interested in this as in obtaining the lowest possible freight charges.

The whole business situation is clogged and obstructed not only by the high cost of railroad operations but high industrial costs, placing goods beyond the purchasing power of consumers. This is the principal reason why millions of men are out of work, and it will have to be squarely faced before any general recovery can take place. The sunshine cure is no remedy for this situation. Prosperity will not be created by cheerful talk while this unbalanced state of industry exists. It will not be created by unemployment conferences unless they bring about an understanding of the necessity for reducing industrial costs. Such make-shifts as spreading what employment there is to include the unemployed and creating employment upon public works are at best effective only as a means of tiding over a temporary situation, and are chiefly objectionable because they actually postpone the readjustments that are necessary to the restoration of a normal state of industry. The natural course for an employer to pursue when reductions of force must be made is to retain the oldest and most worthy employes, and it is not likely that many will be persuaded to do otherwise.

There is no way to have prosperity except by self-supporting, balanced industry—by the free and natural exchange of products and services—and this requires that the compensation of the people in the various industries shall be on such a basis that they will absorb each other's products.

Where Is the Fault?

Who is responsible for this situation? It is true that the country is rich in the elements of wealth; food-stuffs and clothing materials exist in such great stocks that their very abundance seems to be one of the causes of the depression; there is no end of work needing to be done. This seems to show that the fundamental conditions are right, and therefore that somebody must be to blame. It is said that society owes everybody an opportunity to earn a living, but that is very general and incomplete statement. Society consists of everybody; it can do nothing except through organization, and has never been very successful in attempts to provide people with a living.

Over in Russia they have been trying the most extensive experiment ever attempted to provide everybody with work and a living, and it has resulted in the most stupendous social break-down of all history. In this country we have the regime of personal liberty, with the responsibility upon each individual to find his opportunity, to place himself where somebody will be willing to pay for his services, and to make provision for his own needs. The grouping of workers in the different industries is voluntary; they make their own bargains, singly or collectively, and the products of each group are exchanged in the markets for the products of the other groups, upon terms that they mutually agree upon.

It is a highly organized, specialized, complicated system of industry, very effective when well-balanced and in full operation, but easily disorganized, because it is inter-dependent, and because there is no authority over it. Nobody has authority to send one man to till the soil, another to mine coal, another to work on a railroad, and so on throughout the industries, or to fix the basis upon which their products or labor shall be exchanged. All of these arrangements are left for them to make for themselves, by bargaining at will, and from this state of freedom results the confusion in industry that exists today.

Responsibility goes with power, and since there is no central authority with power to readjust the industrial organization, so that all its parts will be in right relations to each other, it cannot be said that there is any general responsibility or that anybody is chargeable with the general situation. It is idle to talk about the obligations of society to its individual members unless it is proposed to place the individual members under more definite obligations to society, and to place in the hands of somebody representing society much greater authority over individuals than is now vested anywhere.

In other words, if we want to make somebody responsible for industrial crises, and for unemployment, and all the other ills that trouble us, we must first surrender our freedom, and place ourselves at the disposal of that somebody.

The Industrial Forces Must Come to An Understanding

A general state of confusion exists in which the exchanges cannot be made as usual, and production slows down. The individual employer cannot go on making goods unless he

can sell them. When his outlet is closed he shuts down, and when he stops buying materials and paying wages an outlet for other products is closed. Employers and employes are alike affected; it is not a situation to quarrel over, but to investigate intelligently, to find the original cause.

The original cause in this case will be found to be the great rise of prices and wages which was brought about by the war. Wages were advanced because the cost of living, which consisted primarily of farm products, had gone up. As wages and prices went up closely together the balance was fairly well maintained, but it was inevitable that war prices would not be maintained indefinitely in peace times, and farm products now have undergone a great decline, while wages as a rule have not been reduced to correspond.

In some lines wage reductions have been very considerable; in others but slight or entirely absent. The coal miners have taken no reduction, and at the national convention recently held one of their spokesmen announced that when the existing contract expires next April they will ask an increase. Coal is an important factor in manufacturing and transportation costs.

Railroad wages were reduced 12 per cent, on July 1, but although the employes have been taking the pay they have not yet formally accepted the reduction, and a strike threat is still pending. The reduction of 12 per cent, however, is plainly not enough to permit the reduction of transportation charges that ought to be made.

General Atterbury On Wage Problem.

General Atterbury, vice-president of the Pennsylvania Railroad, was invited before a meeting of the Mutual Beneficial Association of the road, composed of its employes a few days ago and in his informal remarks referred directly to the wage situation in the following language:

There is only one solution to the problem, and that is liquidation. How will it affect us? "Well," the farmers say, "we have liquidated and are selling wheat at $1 a bushel." The industries say they, too, have liquidated. They claim steel is selling at pre-war prices, for example. But there are two outstanding features in liquidation that are not yet materially touched. These are coal and transportation.

Both, curiously enough, have been touched with the damning effect of Government control. Then, too, the farmers are united and the industries are solidly united. They both say to the railroads, "get your rates down or we will get them down for you."

Now, the question is, what does a reduction in rates mean to us? You in the accounting department know our earnings today are insufficient to meet interest, sinking fund charges and dividends. Whatever we are doing now is at the sacrifice of the property.

Already there has been a 12 per cent reduction in wages. It has effected us all. You, who are in close touch with operation, know better than I whether there can be a still further reduction in operation costs or use of material. There is nothing much left but a still further reduction in wages.

It is not pleasant for me to have to suggest to you this matter, nor is it pleasant for you to hear. That is facing us, unless we want a receivership or Government ownership.

If a receivership comes to the country's railroads there will be nothing left then for them to do but to reduce wages. We must view this situation as citizens of a great country, with a duty to perform outside of our own individual selfish feelings. Rates must come down. If it is not voluntarily, it will be forced by legislation.

As General Atterbury was leaving the room he was called back by the Chairman.

"Everybody in this room who is with the General in this, raise his hand," called the Chairman. All hands were raised. The General thanked them for their support and left.

The railroad companies should not have to bear the whole burden of insisting upon wage reductions. It is a readjustment in which the public is interested, and the public should give its influence in support of the companies. The issue whether railroad labor shall be a preferred class, fixing its own compensation, without regard to the effect upon other interests must be squarely met. In the long run a fair adjustment is in the best interests of railway employes, for the destruction of traffic or the ruin of railway properties will affect them unfavorably in the end.

The Test of Labor Leadership

The existing situation presents a test of the quality of labor leadership. Has it the foresight, the wisdom and courage to act for the best interests of the whole body of wage-earners and of society as a whole?

There is no real conflict of interests, for no class is prospering by present conditions. The number of wage-earners without jobs or on part time shows the futility of attempting to maintain wage-rates above the economic level. The stubborn determination not to yield simply delays the hoped-for revival. They are not engaged in an argument in which the other party may be convinced or coerced; it is an argument with fate; an attempt to coerce economic law.

The labor organizations have great power, which they may exercise for good or ill. They are a part of this free social system, which is dependent for prosperity and progress upon the intelligent co-operation of its members. Nobody can force them to work for wages that they are unwilling to accept, nor on the other hand can they force other people to buy their products or services. There is no power of coercion anywhere, except the general economic law which says that unless a proprietor operates his works he may be forced into bankruptcy and that unless a wage-earner has wages he may be reduced to hunger. All are interested in finding a basis of agreement upon which industry can be restored to activity, but nothing can be done except by agreement.

Undoubtedly the responsible labor leaders are in a trying position. One of them is quoted as saying that "labor unions are not organized to reduce wages," they are expect-

ed to secure advances rather than reductions. Leaders, however, depend for their lasting influence upon their ability to lead wisely and to serve the real interests of their followers, which means that they must serve the best interests of the public as well. There is no achievement worth while for any class unless it promotes the welfare of the entire community. There is a fair adjustment of relations which serves every interest best, because it produces the greatest aggregate results. Anything short of that yields less to every participant. This is not mere sentiment or altruism, but economic law. Labor has the highest return when there is a full demand for all of it, and when all the productive forces of society are in full action.

Money and Banking Conditions.

The credit situation has been working easier in the industrial sections, where the slowing down of business, general liquidation of inventories and decline of prices has reduced the volume of loans. The loans of 70 New York City banks in the Federal Reserve system on September 14 aggregated $4,665,000,000, against $6,052,000,000, the high figures of the inflation period, on October 10, 1919, a decline of 22.4 per cent. The interior banks, however, show no such degree of liquidation. The loans of 810 member banks reporting to the Federal Reserve Board, most of them in the larger cities and including the New York City banks, on September 14 showed a decline of only 14.8 per cent from the high point, which for them was on October 15, 1920.

The deposits of all national banks declined from $17,155,000,000 on June 30, 1920, to $15,142,000,000 on June 30, 1921, or in the sum of $2,013,000,000, and their loans and discounts declined in the same period from $12,396,000,000 to $11,125,000,000, or $1,271,000,000.

The liquidation of the reserve banks naturally has been by a higher percentage than that of the member banks, as it is only the loans in excess of the latter's capacity that are passed up to the reserve banks. On September 21, the total earning assets of the reserve banks stood at $1,652,278,000, as against $3,309,588,000 on September 24, 1920.

The total earning assets of each of the twelve Federal Reserve banks a year ago, on the 1st day of June last and on September 21, were as follows:

	Sept. 24, 1920	June 1, 1921	Sept. 21, 1921
Boston	$236,470,000	$142,599,000	$109,462,000
New York......	1,010,749,000	639,210,000	300,835,000
Philadelphia ..	233,032,000	196,225,000	132,421,000
Cleveland	296,146,000	167,316,000	160,027,000
Richmond	131,815,000	118,155,000	109,796,000
Atlanta	140,155,000	126,663,000	123,251,000
Chicago	556,738,000	355,450,000	265,896,000
St. Louis.........	136,652,000	96,003,000	88,238,000
Minneapolis ..	94,256,000	74,662,000	76,344,000
Kansas City..	135,000,000	100,793,000	92,590,000
Dallas	89,427,000	70,345,000	64,044,000
San Francisco	249,168,000	182,311,000	129,373,000
Total	$3,309,588,000	$2,269,732,000	$1,652,278,000

These figures show much greater liquidation for the eastern reserve banks, which serve the commercial and industrial interests chiefly, than for the western and southern banks which serve the agricultural interests more directly. It should be understood in this connection, however, that on September 21 the reserve banks of Boston, New York and Cleveland were holding an aggregate of $66,476,000 of paper taken from the reserve banks of Richmond, Atlanta, Minneapolis and Dallas, to enable the latter to extend accommodations in their districts. With allowance for this paper the amounts shown in the table above as loans on September 21 should be increased, Richmond by $24,728,000; Atlanta, $16,430,000; Minneapolis, $7,052,000, and Dallas, $18,266,000. A similar state of affairs, however, has existed throughout most of the year.

It should also be said that the member banks of all the central cities have been and are now lending large sums to their correspondent banks in the west and south.

Interest Rates

The Federal Reserve banks of New York and Boston have reduced their discount rates to 5 per cent.

In this city interest rates on customers' paper are commonly at 5½ to 6 per cent, with most of the paper on the latter basis. Commercial paper is ruling at about the same. Call money has been ranging at 4½ to 5½. Ninety-day acceptances have been selling on a 4¾ basis, which compares with 6¼ at the high point.

A good deal of corporation money released by the decline of industrial operations has been going into acceptances and Treasury certificates.

The Treasury on September 8 made a combined offering of $600,000,000 in Treasury paper, consisting of 3 year Treasury notes bearing 5½ per cent interest, 6 months certificates bearing 5 per cent interest and 1 year certificates bearing 5¼ per cent interest.

Subscriptions for the three issues aggregated over $1,500,000,000, or 2½ times the offering, which shows the amount of money available for that class of offerings.

Although money is easier and cheaper, and the reserves of the Federal Reserve banks are higher, money is not generally easy, in the sense that banks are eager to lend. Many of them are still heavily indebted to the reserve banks, and have unliquid assets that they would like to get clear of. Some of them, however, are getting free and as they do rates at

the centers weaken. Activity and rising prices in the bond market is symptomatic of an increase of available funds.

An Example of Bank Deflation

We have a letter from a good country bank in a western agricultural community, giving figures of its condition at different times over the past seven years, and as they illustrate graphically the rise and fall of bank deposits and the acute problem thereby presented to bankers generally, we are giving the figures herewith:

	Aug. 1, 1914	April 7, 1917	April 19, 1920	Aug. 3, 1921
Deposits	$447,424	$657,970	$951,710	$499,140
Loans	376,023	547,500	926,899	663,470

The high point of deposits was touched on February 28, 1920, when deposits were $1,068,000, since when deposits have fallen away over one-half. This loss in deposits resulted mainly from the fall in the prices of farm products, the income of the community declining faster than its outgo.

With such a heavy loss of deposits this bank was forced to curtail the accommodations it was granting in that community, and from April 19, 1920, to August 3, 1921, its loans were reduced from $926,899 to $663,470, or a little less than 30 per cent. They remain nearly $300,000 above the figures of 1914. If the bank had been obliged to rely upon its own resources it could not have met the demands of its depositors without a greater reduction. The pressure was relieved by loans from the Federal Reserve bank and correspondent banks at the centers.

This illustrates what has taken place generally throughout the agricultural sections, and explains the mistaken idea prevalent in those sections, that the Federal Reserve banks were forcing liquidation. The fact is that the depositors of the local banks were forcing liquidation by drawing down their balances. The bank referred to above could not continue to lend as much money with deposits at $500,000 as with deposits at $951,000. It was obliged to reduce its loans as deposits fell off, but the pressure was relieved to some extent by borrowing at the reserve bank or elsewhere. As a matter of fact the reserve bank of that district extended accommodations to its member banks not only up to the limit of its capacity but borrowed heavily of the eastern reserve banks for that purpose.

Moreover, the borrowings of the large banks in the eastern centers from their reserve banks, which have been critically referred to in some quarters, were largely for the purpose of lending to country correspondent banks situated as this one.

The Source of Bank Credit

Most of the criticism of the reserve system and of the member banks which has been current in the past year has come from persons who have a vague idea that the banks are the original source of credit. That is a misconception of their function and services. The banks are reservoirs of credit, their function being to gather together the floating cash resources of the community, and to make these resources more available and effective. It is a useful function, but it cannot be magnified into the function of supplying credit as a printing press can turn out money. The banks are not entitled to be entrusted with any such power. They may properly lend what the community deposits with them, and no more. The deposits of a community depend upon its wealth-producing activities. When a carload of wheat or hogs is shipped out of a farming community, such as the one referred to above, it creates a bank deposit corresponding to the sum for which it is sold. When wheat sells for $2.50 per bushel it creates a larger deposit than when it sells for $1.25 per bushel, and when the former is the case the bank can lend a larger sum than when the latter is the case. Therein is the explanation of the tight money situation that has existed in the agricultural districts during the past year. There is no system under which a bank with $1,000,000 of deposits is justified in lending as much money as a bank with $2,000,000 of deposits. If it is done at all it must be done by borrowing, and it could not be justified except in an emergency and temporarily. It would mean a pyramid of credit, exceedingly dangerous in a time of shrinking values.

The First Obligation

It should be never forgotten that the first obligation of every banker is to keep his institution solvent. The public has a right to expect him to do this. If the public has any reason to believe that he is not guided by this purpose it will storm his doors in an effort to withdraw its funds from his keeping. The banking business depends upon the confidence of the public—upon the public understanding that depositors have the first claim on the funds. If there is any question about that the banking business will disappear off the face of the earth.

This is just as true for the reserve banks as for the member banks. They hold the reserves of the member banks, and it is of the highest importance that they be kept solvent and liquid. They should lend only upon quick assets of undoubted value. It is not their business to support markets or to "carry" debtors, but to handle the funds entrusted to them to carry on the regular trade of the country, and in such manner as will permit them to always

meet their obligations. They can render greater service to the country by keeping their credit unimpaired and discharging their strict functions with perfect fidelity than by attempting such visionary and impossible feats as trying to sustain the prices of all products in the United States when they are falling all over the world. Governor Harding, of the Federal Reserve Board, gave a complete justification for the Board, when he said that its policies were guided by a purpose to protect the solvency of the system.

The Federal Reserve banks have rendered enormous service to the country in the emergency through which it has been passing, because confidence in their solvency and ability to meet a crisis has been sustained. If that confidence had been lost chaos would have ensued, and the losses of the country would have been enormously greater. That confidence could not be retained if the banks were conducted upon any but sound banking principles. Public confidence is the greatest asset of the system—the asset most valuable to the country. On no account should it be put at hazard, by entrusting managers or even the Federal Reserve Board, with the task of sustaining markets. Let markets go as they may, and let the people who wish to bet on them do so with their own money or the money they can borrow elsewhere, but the Federal Reserve banks should be kept absolutely safe at all times from market risks.

Panama Canal Tolls.

It is reported from Washington that the administration is desirous of a postponement of further consideration of the pending bill to relieve our coastwise shipping from the payment of canal tolls until after the international conference for the limitation of armaments. Doubtless it is well to avoid on the eve of the conference a debate in which irritating or provocative statements might be made, and certainly it would be unfortunate at this time, when the United States has assumed the leading part in a movement to substitute the methods of friendly conference and mutual understanding for the methods of aggressive assertion and armed force, to have this country take an action which Great Britain would certainly regard as violating its treaty rights and concerning which all other countries probably would side with Great Britain.

It cannot be too strongly urged that the high purpose of limiting and eventually abolishing expenditures upon armaments, and of settling all differences that arise between countries by peaceful means, depends for realization upon mutual good-will, regard for each other's feelings and opinions, and scrupulous regard for treaty obligations. It depends furthermore upon the development of a knowledge of mutual interests. The whole world must learn that every country has more to gain by policies that serve the common interests than by policies that attempt to gain an advantage for one country over others. In international relations, as in the relations between capital and labor, the world will not get very far toward permanent peace until there is a better understanding of the true harmony of interests, and a disposition to show consideration for others where their interests are involved.

Toll Controversy Unfortunate.

The Isthmus of Panama is one of the great cross-roads of the world's commerce. It is not territory of the United States, and this nation has been among the nations most insistent that by the law of common interest all the world had certain rights of transit and of equal treatment there, no matter what sovereignty existed over the territory, or who owned proprietary rights in the canal. The United States never can get away from the fact that it has steadfastly proclaimed this doctrine, and it should not want to get away from that record, for it embodies a principle upon which all international relations must be ultimately based, if war is to be abolished.

It will be very unfortunate to have any controversy over the question of Panama tolls, either before the international conference or afterward. If we are intending to insist upon an advantage for our own coasting trade, regardless of the interpretation which other countries give to our treaty compact, perhaps it would be more creditable for us to take the action in advance of the conference than afterward, and boldly face it out in the conference. In that case we will have violated the spirit of the conference of which we are chief sponsor immediately before its meeting instead of immediately after. There may not seem to be much choice, but in the former case it at least could not be said that we had felt encouraged to disregard the opinions of other governments by the agreements of the conference.

The Tariff Act.

The new tariff is held up under protests from many quarters and it is probable that the existing emergency schedules will be maintained in force for some time. The pending Fordney bill is apparently drawn with a view to preventing imports, but without consideration of the fact that preventing imports automatically raises barriers to exports. Nobody wants to export commodities unless he can be paid for them, and there is no way by which foreign countries can make payments but in

their products. The more difficult we make it for foreign goods to enter this country the more difficult we will find it to sell our products abroad, and to collect the debts already owing to us.

Objections to New Plan.

The delay over the new bill is largely due to the vigorous opposition raised to what is called the American valuation plan. In the past our ad valorem duties have been levied upon the basis of the foreign invoice, which shows the price paid for the goods by the importer. That is a definite thing, and the importer knows when he buys the goods precisely what the import duties will be. The new plan is to levy the duties upon the wholesale value of competitive domestic merchandise in the American market. This plan is objected to, first, because of uncertainty as to the basis of the computation, and, second, because of the time which must elapse between the date of contracts abroad and the date of importations. Imported goods are commonly bought six months or so before importation, and important changes may take place in domestic values in that time. The change obviously involves the customs charge in uncertainty and where the charge is so large as in many cases the bill proposes to make it, a serious obstacle to business is raised.

German Industrial Capacity.

The main reason for the change, it may be assumed, is to make the duties high enough to effectively control importations from the countries with depreciated currencies, which just now are causing what in our opinion is an undue state of alarm. It might be thought from reading the scare stories about German competition that the Germans had the industrial capacity to do all the work of the world. In fact their capacity is no greater than before the war. They were very busy and effective in competition before the war, and yet the rest of the world found enough to do. They are not more formidable in industrial ability or equipment than they were then, and the low value of their currency is not on the whole or for the long run a source of strength. It hampers them seriously in the purchase of raw materials. They are under a serious handicap also from the requirement that 26 per cent of the value of all their exports must be paid into the reparations fund. The so-called advantage which they have in the depreciation of the mark is a fact which is causing the German authorities and financiers the greatest anxiety. At the latest quotation, 117 marks to the dollar, it seems on the verge of disappearance, along with the Polish mark and Austrian crown.

EXPORTS AND IMPORTS

Lower Prices an Important Factor in Reductions of International Trade

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Lower prices of the principal articles of international trade are responsible for a large share—probably a larger share than we generally realize—of the fall-off in the foreign trade of the United States, and in fact of all nations. Our own imports in the eight months ending with August, 1921, were but $1,693,000,000 against $3,995,000,000 in the same months of 1920, and the exports only $3,227,000,000 against $5,475,000,000 in the same period of last year; a fall of 57 per cent in the value of the imports and 41 per cent in the value of the exports. But it is only when we compare the prices at which the principal articles were imported and exported in 1920 with those of the same period of 1921 that we realize the important part which lower valuations have had in this tremendous decline.

Some Examples of Export Values

A few examples will illustrate and justify the above assertion. The quantity of raw cotton exported in the first eight months of 1921 was practically the same as in the corresponding months of 1920 (1,958,818,000 pounds in the eight months of 1921 against 1,982,688,000 in the same period of 1920), yet the value of the 1921 exports was but $274,000,000 against $820,000,000 for the latter period, the average export price per pound in the eight months of 1921 having been but 14c against an average of a little over 41c a pound in the corresponding months of 1920. The quantity of cottonseed oil exported in the eight months of 1921 was practically double that of the same months of the preceding year, yet the value was only $21,000,000 in the eight months of 1921 against $25,000,000 in the same months of 1920. Wheat exports in eight months of 1921 showed an increase of 103 per cent over the same months of 1920, while the total value increased but 22 per cent. Lard exports increased 60 per cent in quantity but the value actually decreased 10 per cent in that period; and bacon exports which decreased 26 per cent in quantity fell off 50 per cent in value.

Average Price Comparison

Further evidence of the great importance of prices in the decline of our import and export trade figures, is found in a comparison of the average import or export price of certain important articles in July, 1921, with that of July, 1920, both on the import and export side. Coffee, for example, of which the United States consumes one-half of the world's product, shows an average import price in July, 1921, of 11c per pound against 20c in July, 1920; raw sugar imported in July. 1921, averaged, according to the official figures of the Department of Commerce 3.2c a pound against 16c in the same month of last year; tea 19½c a pound against 34c a year ago; cocoa 6½c a pound against 17½c; and olive oil $1.69 a gallon against $3.64 in the same month of 1920. In the principal articles required for use in manufacturing, the fall off in price is equally startling. Raw cotton imported in July, 1921, was valued, by the Department of Commerce, at 18½c a pound against 60c for the cotton imported in July, 1920; carding wool 11c per pound against 60c; indiarubber 15c a pound against 44c; cattle hides 11½c a pound against 32c; goatskins 33c a pound against $1.27; and ground wood pulp $19.42 a ton against $72.78 in July, 1920, while chemical, unbleached, wood pulp averaged in the imports of July, 1921, $72.21 per ton, against $134.42 per ton in July, 1920. On the export side, the fall in the principal articles which we supply to other parts of the world is equally startling. Cotton exported in July, 1921, went, according to the official statements of the Department of Commerce, at 11.3c per pound against 41.1c in the same month of last year; cotton cloths, unbleached, 7.9c per yard in July, 1921, against 26.5c in July, 1920; wheat $1.50 per bushel against $2.96 one year ago; corn 71c a bushel against $1.81; bituminous coal $5.75 per ton against $9.33; copper 13.2c a pound against 19.8c; refined sugar 4.8c against 9.9c a pound one year ago; potatoes $1.50 per bushel against $3.28 in July of last year; pitch pine lumber exactly one-half the price per M feet in July, 1920; pig iron $25.80 against $51.66; and men's boots $3.30 per pair against $5.45 in the corresponding months of last year.

Further Details in the Tables

The tabulations printed herewith show the average import and export price in 1920 and 1921 of twenty principal articles forming the import and export trade respectively, the import prices being those of the articles in the countries from which the merchandise is exported to the United States, the valuation being based by the Department of Commerce upon the exchange value of the currency in which their values are stated on their exportation to the United States; the export prices are those at the port of exportation from the United States. Examination of these tables, which show the average import and export prices in January and July, 1920, compared with those of January and July, 1921, makes it readily apparent that the decline in prices began to make itself distinctly visible in July, 1920, and continued downward to July, 1921, when they stand in most instances at 50 to 60 per cent below those of July, 1920.

But while these individual instances of a big fall in the unit value of the most important factors in our foreign trade are of themselves suggestive, an equally impressive evidence of the part which lower prices play in the reduction of foreign trade totals is found by comparing the percentages of fall of total values in all imports or exports with the percentage of advance or decline in the quanti-

Average monthly import prices of principal articles entering the United States in January and July of 1920 and 1921:

	Jan. 1920	July 1920	Jan. 1921	July 1921
Sugar, raw ....lb.	$0.10	.161	.061	.032
Coffee ....lb.	.226	.204	.10	.113
Cocoa ....lb.	.178	.177	.086	.066
Tea ....lb.	.234	.34	.191	.194
Copper ....lb.	.206	.186	.152	.124
Tin, pigs and bars.....lb.	.554	.634	.446	.30
Cotton, raw ....lb.	.476	.602	.283	.186
Wool, Carding ....lb.	.446	.605	.242	.111
Silk, raw ....lb.	10.07	7.76	6.02	5.34
India Rubber ....lb.	.421	.44	.294	.152
Cattle Hides ....lb.	.366	.319	.172	.114
Goatskins ....lb.	.955	1.27	.481	.327
Sheepskins ....lb.	.424	.533	.247	.196
Pig Iron ....ton	30.13	69.25	72.02	35.69
Bar Iron ....ton	89.00	184.80	131.40	64.44
Cheese ....lb.	.397	.366	.359	.282
Cocoanut Oil ....lb.	.165	.148	.113	.082
Soya Bean Oil..........lb.	.138	.112	.051	.041
Olive Oil ....gal.	2.52	3.64	2.59	1.69
Wood Pulp, Chemical, unbleached......ton	110.00	134.42	128.93	72.21
Wood Pulp, ground..ton	41.13	72.78	62.75	19.42

Average monthly export prices of 20 principal articles passing out of the United States in January and July of 1920 and 1921:

	Jan. 1920	July 1920	Jan. 1921	July 1921
Corn ....bush.	$1.47	$1.81	$0.964	$0.71
Wheat ....bush.	2.43	2.96	2.13	1.50
Flour ....bbl.	11.18	11.01	8.90	7.05
Coal, Bituminous ....ton	5.60	9.33	7.60	5.75
Copper, pigs, etc..........lb.	.206	.198	.142	.132
Cotton, raw ....lb.	.408	.411	.193	.113
Cotton, Cloth, unbl...yd.	.204	.265	.174	.079
Pig Iron ....ton	35.40	51.66	54.28	25.80
Steel Billets ....ton	55.00	65.90	122.67	37.30
Sole Leather ....lb.	.53	.514	.382	.40
Men's Boots ....pair	4.65	5.45	4.20	3.30
Women's Shoes ....pair	3.77	4.70	3.40	2.70
Fresh Beef ....lb.	.208	.19	.19	.127
Bacon ....lb.	.264	.225	.213	.151
Lard ....lb.	.277	.221	.188	.122
Cottonseed Oil ....lb.	.226	.21	.116	.077
Sugar, Ref. ....lb.	.083	.099	.077	.048
Leaf Tobacco ....lb.	.455	.605	.45	.332
Potatoes ....bush.	2.00	3.28	1.47	1.50
Pitch Pine Lumber M ft.	50.75	62.90	58.30	31.45

Imports of 50 principal articles in which weight can be shown, in first 7 months of 1920 *and* 1921, *with percentages of increase or decrease in* 1921 *when compared with* 1920:

	Pounds (000 omitted) 7 Mo. 1920	Pounds (000 omitted) 7 Mo. 1921	Pct. of inc. or dec. in 1921	Dollars (000 omitted) 7 Mo. 1920	Dollars (000 omitted) 7 Mo. 1921	Pct. of inc. or dec. in 1921
Aluminum	26,543	24,802	— 7	$7,971	$5,595	— 30
Bananas	2,356,000	2,514,800	+ 7	11,479	11,479	—.01
Bags, jute	34,706	47,507	+ 36	6,027	3,041	— 49
Bristles	2,306	1,817	— 21	4,278	3,148	— 33
Butter	22,855	11,624	— 49	11,789	4,950	— 57
Burlaps	347,557	284,149	— 18	58,805	26,328	— 55
Carbide Calcium	44,646	70,003	+ 57	1,693	2,826	+ 66
Cattle	124,957	64,416	— 48	8,565	3,636	— 57
Cheese	9,071	9,873	+ 8	3,204	3,209	+.01
Cigars	3,150	1,191	— 65	8,422	3,291	— 61
Clover Seed	22,414	30,072	+ 34	7,071	3,875	— 46
Coal	1,326,559	1,215,007	— 8	3,519	3,611	+ 3
Cocoa	250,814	223,249	— 11	43,839	16,491	— 62
Coffee	824,584	826,631	+ .3	176,219	83,030	— 52
Copper in Ore	72,042	54,746	— 23	13,555	8,200	— 39
Copper in pigs, etc.	288,287	153,442	— 46	44,747	20,892	— 53
Copra	110,927	103,077	— 7	8,243	4,153	— 50
Cotton, raw	247,919	61,095	— 75	116,528	14,049	— 88
Cotton, cloth	26,140	12,010	— 54	36,587	14,619	— 60
Creosote Oil	43,592	120,992	+177	981	3,136	+229
Fibers	539,840	387,520	— 28	51,804	25,805	— 50
Flaxseed	873,544	341,992	— 61	49,360	9,649	— 80
Flour	34,603	150,489	+334	2,066	6,628	+228
Gum Camphor	3,243	1,111	— 65	5,750	785	— 85
Gum Chicle	6,716	5,079	— 24	4,785	2,655	— 44
Gum Copal	44,611	8,927	— 80	5,700	1,137	— 81
Gum Shellac	63,019	101,542	+ 62	3,662	4,688	+ 22
Hides	367,645	198,087	— 46	193,887	36,790	— 81
Lead	65,374	39,670	— 36	3,789	1,342	— 64
Manganese	527,400	665,280	+ 26	5,279	2,779	— 48
Meats, fresh	43,904	36,763	— 16	7,032	4,417	— 37
Olive Oil	18,160	24,432	+ 45	6,279	6,145	— 2
Paper, newsprint	779,043	832,974	+ 6	32,747	48,170	+ 47
Petroleum	15,801,032	25,662,264	+ 62	28,159	45,923	+ 62
Quebracho Extract	63,019	101,542	+ 62	3,662	4,686	+ 28
Rice	105,868	48,189	— 57	10,965	1,970	— 82
Rubber	416,982	189,604	— 54	185,219	41,295	— 77
Silk, raw	21,575	23,265	+ 9	227,348	130,257	— 43
Silk, waste	6,728	2,737	— 59	11,038	2,727	— 75
Silk, artificial	1,495	2,578	+ 72	5,201	4,416	— 15
Soda, Nitrate	1,848,598	632,218	— 65	37,571	13,803	— 63
Spices	43,733	35,211	— 19	8,746	3,555	— 59
Sugar	5,670,296	3,860,657	— 31	684,207	177,053	— 74
Sulphur Ore	499,520	262,082	— 47	1,129	523	— 53
Tea	53,662	30,612	— 43	14,624	5,377	— 63
Tin, ore	35,840	17,920	— 50	12,218	3,753	— 69
Tin, Pigs	83,503	23,087	— 72	49,950	8,115	— 84
Tobacco, leaf	55,530	29,494	— 47	48,630	32,657	— 33
Wheat	182,495	1,131,017	+520	7,574	30,958	+309
Wool, raw	199,084	257,655	+ 30	105,374	52,322	— 50
Wood pulp	904,960	445,760	— 51	35,672	17,736	— 50
Total	35,546,091	41,382,256	+ 16	2,422,949	997,666	— 60

Exports of 50 principal articles in which weight can be shown in first 7 months of 1920 *and* 1921, *with percentages of increase or decrease in* 1921 *when compared with* 1920:

	Pounds (000 omitted) 7 Mo. 1920	Pounds (000 omitted) 7 Mo. 1921	Pct. of inc. or dec. in 1921	Dollars (000 omitted) 7 Mo. 1920	Dollars (000 omitted) 7 Mo. 1921	Pct. of inc. or dec. in 1921
Apples	77,250	206,250	+167	4,960	9,639	+ 94
Apricots	7,181	7,103	— 1	1,896	1,276	— 32
Autos, Com'l	54,000	15,000	— 72	28,183	7,799	— 72
Autos, pass.	267,000	57,000	— 78	98,059	22,343	— 77
Bacon	395,417	264,688	— 32	99,711	46,655	— 54
Barley	337,700	522,600	+ 54	11,396	9,448	— 17
Bars, steel	813,765	342,052	— 57	29,877	12,060	— 60
Beef, fresh	82,180	9,028	— 88	16,411	1,624	— 90
Binder Twine	43,437	53,252	+ 23	6,574	7,756	+ 18
Bolts, Nuts, etc.	49,920	43,566	— 12	3,806	4,146	+ 8
Butter	15,529	5,825	— 62	9,043	2,358	— 73
Cheese	13,300	9,485	— 28	4,059	2,121	— 48
Cigarettes	30,918	14,556	— 53	23,722	9,335	— 61
Coal, anthr.	5,258,560	5,770,240	+ 9	24,846	27,965	+ 12
Coal, Bit.	34,585,600	32,030,080	— 6	112,579	93,236	— 17
Copper, pigs, etc.	449,432	334,827	— 25	92,113	47,045	— 49
Corn	545,664	4,072,376	+644	16,062	58,194	+261
Cotton, raw	1,907,920	1,704,136	— 11	792,150	243,572	— 69
cloths	137,029	68,785	— 49	151,977	40,629	— 73
Cotton, cloths	137,029	68,785	— 49	151,977	40,629	— 73
Cotton, Yarn	13,112	8,829	— 33	11,057	3,699	— 67
Eggs	16,036	16,300	+ 2	7,786	5,232	— 33
Fertilizers	1,928,640	1,137,920	— 41	23,797	9,418	— 61
Flour	2,773,204	1,825,348	— 34	158,105	70,568	— 55
Hams	132,412	138,578	+ 4	35,909	28,745	— 20
Hides	13,587	12,738	— 6	5,231	1,928	— 63
Hops	16,640	12,109	— 27	11,819	4,518	— 62
Lard	333,332	503,507	+ 51	82,136	69,851	— 15
Lard, Comp.	18,801	31,070	+ 65	4,686	3,544	— 25
Lard, Neutral	16,216	15,110	— 7	4,157	2,296	— 45
Leather, sole	16,050	6,944	— 57	8,896	2,697	— 70
Locomotives	153,750	103,800	— 32	82,594	21,622	— 32
Malt	84,592	217,464	+154	4,416	8,624	+ 95
Milk, cond.	309,632	152,162	— 51	47,195	20,684	— 56
Nails	115,883	47,322	— 59	7,167	3,207	— 55
Oil Cake	266,105	623,108	+135	9,521	12,563	+ 32
Oil, cotton-seed	105,453	207,576	+ 97	24,035	20,340	+ 17
Oil, Mineral	14,171,944	12,938,184	— 9	298,470	254,804	— 14
Oil, Oleo	39,791	81,095	+103	10,237	9,312	— 9
Paraffin	236,675	112,101	— 53	20,430	7,111	— 64
Pipes, iron	399,782	728,600	+ 82	26,450	48,192	+ 82
Pork, fresh	19,984	44,101	+120	4,914	7,612	+ 55
Prunes	59,260	50,111	— 15	9,328	3,554	— 61
Raisins	33,326	5,329	— 84	5,191	1,152	— 76
Rails, steel	745,920	575,683	— 23	19,596	15,694	— 20
Rice	279,192	372,881	+ 33	30,154	12,491	— 59
Rye	2,038,288	1,030,344	— 49	77,223	31,606	— 60
Sheets and Plates, Iron	1,496,908	903,219	— 39	50,991	36,830	— 28
Structural Steel	530,880	548,800	+ 3	17,755	22,783	+ 28
Sugar, ref.	820,794	573,147	— 30	82,787	33,209	— 60
Tinplate	313,669	173,156	— 45	24,048	13,796	— 42
Tobacco, leaf	277,751	318,056	+ 13	149,435	136,384	— 9
Wire	373,150	170,790	— 54	20,475	10,382	— 50
Wheat	4,330,860	8,883,960	+105	198,372	257,864	+ 30
Total	77,562,421	78,700,291	+2.2	3,051,789	1,839,513	—39.7

ties of merchandise representing these value figures. If, for instance, we find that the total quantities of merchandise imported or exported in 1921 are practically the same as in 1920 but that the total value figures show big declines, we are still further sustained in the theory that the fall off is largely the result of lower prices of the principal articles forming the trade in question.

Exports and Imports of Foreign Countries

While a complete comparison of the change in total quantities imported or exported with those in total values is not practicable in the case of the United States, which does not report the quantities of all merchandise imported or exported, such comparison is practicable in the case of certain other countries which publish figures of the total weight of their imports and exports respectively and present them in conjunction with the figures of total value. A considerable number of foreign countries, especially in Europe, publish in their official trade reports the total quantities in pounds, tons or quintals of all merchandise

imported and exported and in close conjunction with them a tabulation of the total value of the imports and exports respectively; and a comparison of their figures of total quantities of merchandise entering or leaving the country with the total value figures of their imports and exports gives further evidence that lower prices play an important part in the reduction of their trade values in 1921 as compared with 1920.

The official figures of a few of the more important countries illustrate this method of comparing the increase or decrease of quantities with those of values. In the case of France, the total weight of all merchandise imported in the first seven months of 1921 is 31 per cent less than in the same months of 1920, while the reduction in values in the same period is 61 per cent. On the export side her figures show an increase of 26 per cent in total weight of merchandise exported but a decrease of 14 per cent in value. Belgian imports in the first six months of 1921 show an increase of 36 per cent in quantity but a decrease of 23 per cent in value, while the exports show an increase of 80 per cent in quantity and a decrease of 9 per cent in value. Brazilian official figures covering the first six months of 1921 show a reduction of 7 per cent in quantity and 25 per cent in value in imports, while on the export side there is a decrease of about 10 per cent in quantity but of 60 per cent in value, the value figures in the case of Brazil representing the "equivalent in pounds sterling," as stated in the official import and export publication of that government.

Weight and Values United States Foreign Trade

In the case of the United States, as above indicated, it is not possible to state the total quantity, by weight, of all imports or exports because of the fact that in many articles the government does not state the quantities imported or exported but only states value. By combining, however, all articles in which quantities are stated and reducing all quantities to pounds, it is practicable to compare the increase or decrease in the quantity and value of the articles forming about two-thirds of the total value of the merchandise imported or exported.

A tabulation of this character, stating the weight in pounds of fifty principal articles imported into and fifty principal articles exported from the United States in the seven months ending with July, 1921, compared with the same months of 1920, is presented herewith, showing the per cent of increase or decrease in the quantity and value respectively of each of the one hundred articles thus named, and also the per cent of increase or decrease in the grand totals of quantity and value of the respective groups. This tabulation, which includes articles forming about 60 per cent. of the total value of all imports and exports respectively, shows a slight increase in the aggregate weight of the fifty articles enumerated in each of the tables, whether imports or exports, when comparing the seven months of 1921 with the corresponding months of 1920, but a big reduction in total value. On the import side, the aggregate weight of the fifty principal articles for which it is possible to state quantities is 16 per cent greater in the seven months of 1921 than in the same months of 1920, while the aggregate value of the same articles shows a reduction of 60 per cent in 1921 as compared with the corresponding months of 1920—an increase of 16 per cent. in weight and a reduction of 60 per cent in value. On the export side, conditions are somewhat similar; the weight increased about 2 per cent and in value a fall of 40 per cent, when comparing the first seven months of 1921 with the corresponding period in 1920.

Coal, Petroleum, Wheat and Corn Special Factors

The above assertion that the fifty principal articles of import show an increase of 16 per cent in aggregate weight but a decrease of 60 per cent in total value and that the fifty principal articles of export show an increase of 2 per cent in aggregate weight and a decrease of 40 per cent in total value, while literally true, is due in part to somewhat unusual and perhaps abnormal conditions, especially as relates to imports. On the import side, the biggest increase in weight occurs in petroleum which jumped from 15,000,000,000 pounds in the seven months of 1920 to 25,000,000,000 in the same months of 1921 but did not materially increase or decrease its price per unit of quantity, and this unusual condition is responsible in part for the fact that the grand aggregate of quantity imported increases 16 per cent while the grand total of value decreases 60 per cent. If, however, we eliminate petroleum we find that the other forty-nine articles show in their aggregate a fall off of 19 per cent in weight, while the decline in value is still about 60 per cent. On the export side bituminous coal, petroleum, wheat, and corn are the biggest factors in quantity, coal and petroleum showing slight decreases in quantity and value, while wheat shows an increase of 105 per cent in quantity but only 30 per cent in value, and corn an increase of 644 per cent in quantity and but 261 per cent in value. Of the fifty articles named in the import statement, 66 per cent show a decline in quantity and 82 per

cent a reduction in value; on the export side 64 per cent of the articles named show a reduction in quantity and 78 per cent a reduction in value.

Value and Quantity Percentages

The facts above stated, that big increases in weight occur in classes of merchandise having a low value per unit of quantity, make it apparent that a mere comparison of the aggregate number of pounds of the articles named in the import or export list with the aggregate values of the respective lists would be misleading as to the share which lower prices play in the big fall off in total values and of imports and exports. A close examination of the table, which shows quantities and values and per cent of increase or decrease in each of the 100 articles enumerated will show that in many articles on both the import and export side there are large decreases in quantity, though in practically every case the per cent of decrease in value is much greater than of quantity. As a general rule, the largest per cent of reductions in quantities occurs in manufacturing material, though in most of these articles the per cent of reduction in values is greater than that of quantities. In most of the manufactured articles in which it is possible to show weight there is also a reduction in quantity and a much greater reduction in value. Foodstuffs as a rule show slight changes in quantity but marked reductions in value; in sugar imported the per cent of reduction in quantity is large but the reduction in values much greater, while in wheat exported the per cent of increase in quantity is much greater than the per cent of increase in value.

Greatest Decrease Due to Lower Price

A close study of the records, article by article, of imports and exports in 1921 as compared with 1920 seems to justify the opinion more than one-half of the fall off in our import and export trade is due to lower prices and the remainder to an actual reduction in the quantities of merchandise imported or exported.

The tables herewith presented show quantities and value of the 100 principal articles imported and exported in the first seven months of 1921 compared with the same months of 1920, and the percentage of increase or decrease in both quantity and value, article by article, and for the grand aggregate of both weights and value; also a tabulation showing import and export prices in January and July of 1920 and 1921 of about forty principal articles of commerce.

THE RAILROAD PROBLEM

The Fundamental Factors Discussed by a British Expert

Sir William Acworth in the London Times

[The British railroads were taken over by the Government at the outbreak of the war and returned to private ownership on August 15 last, but under a new law which radically changes their status. This act provides for the compulsory amalgamation of all the railroads into four independent systems, thus practically abandoning the theory of maintaining competition in railway service. A public tribunal, corresponding in power more or less to our Inter-State Commerce Commission, is established to have supervision over rates and service. On the day of the taking effect of this act of Parliament, the London Times issued a Railway Supplement, containing numerous articles dealing with different phases of the railway problem, written by recognized authorities. One of these articles, written by Sir William Acworth, deals with leading questions which are vital to railway administration everywhere, and as they are handled in a very lucid and informing manner we have reproduced the article nearly in full herewith. Sir William Acworth has served in numerous public capacities in connection with railways, notably in recent years upon the Canadian Commission and the Royal Commission upon the Railways of India. He is at this time a member of the latter body. His discussion of the principles of rate-fixing and classification, and of the problems now confronting railroad management in Great Britain is as pertinent to conditions in the United States as if written with direct regard to them.]

The economic man—if a specimen of that interesting animal could really be captured—would doubtless assert that the economic basis of railway rates is merely the law of supply and demand. And he would be quite correct. But the edifice is subject to such thrusts to one side or the other, now by positive legal enactment, and again by the force of custom lying upon us with a weight deep almost as life, that the superstructure often rocks upon its foundations.

Let us first consider the theoretical working of the law. Railways will not be supplied unless there is evident demand for them—that is, unless somebody will provide the money that they cost. And that somebody will normally be sooner or later the customers who use the railways and pay rates and fares. Even when built, railways will not be worked unless somebody meets the costs involved. These costs are of three kinds—actual out-of-pocket cost of working the service, mainly wages and coal; cost of maintaining the plant and equipment; and return on capital. Unless the first set of costs is covered by the receipts, the railway has to shut down pretty quickly. The second set can be postponed, if not wholly, at least to a considerable extent, for a long time in the hope of better days to come. As for the third set of costs, a railway can continue indefinitely as a going concern even though the return on capital be nil. There is nothing in this peculiar to a railway. Compare the position of the rubber industry at the present moment. A rubber company will come to a stand-still unless it can sell its output at a price to cover coolies' wages and minimum establish-

ment charges, but it will probably make drastic cuts in its expenses for cultivation and manure, and it has no need to pay dividends. Even if it has issued debentures the holders will probably prefer to wait rather than foreclose on a valueless property.

But the analogy with the rubber company is not on all fours. Rubber companies are purely private enterprises. There are many hundreds of them. No one of them is indispensable to the community. Each is at liberty to make any profit it can at one time, and correspondingly is permitted to go down unaided if it ceases to be self-supporting. Railways are few and far between. Even in countries well supplied with railways the proportion of the area which is served by two is very small. And consequently railways are very seldom abandoned, however unprofitable they may be as commercial enterprises. In some shape or form the public is forced to come to their assistance, as has happened more than once, for instance, in French railway history. And indeed this peculiarity of railways goes farther. It is taken for granted that the law of supply and demand will induce private enterprise to produce all the rubber required. But in almost every country—Great Britain is the only serious exception—public money has been devoted to the construction of railways considered to be necessary in the public interest.

Rate Fixing

To turn from construction to day-to-day working, how far does the law of supply and demand govern the rates and fares which a railway charges? In an old, rich, and fully populated country such as England the working of the law is obscured by so many outside things, statutory restrictions, legal and administrative regulations, competition—not only by other railways but by water—and so forth, that it is difficult to see the wood for the trees. Let us imagine a railway company in vacuo, subject to no restrictions and substantially free from competition. How will it fix its rates? Presumably it will act like any other trader, who charges for his wares not, as is sometimes supposed, the highest price at which he can get them sold, but the price which he believes will give him the largest net profit on his business as a whole.

Now this profit is the product of two factors: The number of articles sold and the amount of profit on each. And this figure can be ascertained only by the method of trial and error. Normally reduction of price increases consumption. It may or may not increase net profit, for clearly a profit of 20 per cent on the sale of 50 articles is greater than a profit of 8 per cent on the sale of 100. The merchant or shopkeeper is permitted to solve these questions for himself. But in countries where public opinion rules the railway manager is not usually undisturbed in his study of them. The old apple-woman who, though she knew she sold each apple at a loss, believed she made a substantial profit because she sold so many, has left a very large family of descendants.

The average passenger who uses an excursion train carrying twice as many passengers as an ordinary train, refuses to believe that it may yet be less profitable. Still less does it occur to him to remember that possibly half the passengers in the excursion train would have paid full fare had the cheap train not been available. To the railway manager, on the other hand, an excursion train corresponds to an after-season sale, at which, once the demands of customers ready to pay full price are satisfied, the rest of the stock is sold off at prices sufficiently reduced to effect clearance. Or, to take another illustration, a railway when it reduces rates or fares may be compared to a hotel which in the fashionable season charges each guest 30s. a day and gets it, but in the off-season offers en pension terms of three guineas a week, for they cover out-of-pocket expenses for food, wages, and firing, while otherwise the rooms would stand empty, and even the running expenses would not be met.

Cost Plus a Profit

There is another respect in which railway management may usefully be compared with ordinary business. No manufacturer, except where by patent or otherwise he has a practical monopoly of an article in general demand, expects to sell his output at cost plus a fixed profit. He balances large profits here against small profits or even probable losses elsewhere. What he looks to is the total profit on the whole business. A merchant or shopkeeper, if he is to retain his customers, has to keep a stock of things so seldom demanded that he can hardly hope to make a profit on them. He has to sell articles of small value but of high utility—sugar is the stock instance—almost at cost, and to rely on the sale of articles of comparative luxury to redress the balance. So too with a railway. A railway carries pigs of iron at a low rate, pigs of lead at a higher rate, and ingots of copper at a yet higher rate, not because the cost of carriage differs appreciably, but for precisely the same reason that the grocer makes a bigger profit on tea than on sugar. Or, again, a railway runs suburban passenger trains at frequent intervals in the middle of the day and late at night, though the passengers are few and the service unremunerative, because otherwise the suburb would cease to be residential and the crowd in the trains in the morning and the evening would tend to disappear.

Tempering the Wind

No dissertation on railway rates would be complete without discussion of the famous phrase "charging what the traffic will bear." This has been described as a "vile phrase," a "maxim of extortion." Had the railway men been wise enough to lengthen it by two syllables and express it as "not charging what the traffic will not bear," they would have escaped criticism more easily. The present writer once ventured to suggest that the true phrase should have been "tempering the wind to the shorn lamb," for this is really the underlying principle.

Railway business differs from most other businesses, though not from all, by the fact that the standing charges represent a very high proportion of the total cost of carriage. Roughly speaking, taking the world over, we may say that out of every sovereign charged to the public one-third only represents actual cost of operation, another one-third is absorbed in general establishment charges and maintenance of the plant; the remaining one-third goes to remuneration of capital. We may go a stage farther, and say that of the third which represents actual cost of operation only a fraction is chargeable against any individual consignment, though there is a partial exception to this in the case of articles such as coal, where the individual consignments may be so large as to have a specialized carriage cost of their own.

Now the result of this is twofold: the one aspect is represented in the railway maxim, "Any rate is better than no rate," which means to say that the extra cost of what the French economists call the extra ton is almost negligible; and therefore even a minimum rate yields some margin of direct profit, and accordingly the railway is better off with the traffic than without it. The other aspect is that, as the minimum rate on the extra ton may do little more than cover the extra cost of carrying it, somehow the deficiency must be made up; some traffic must not only pay its share of total cost—operation, maintenance, and capital charges—but must make up the share of these charges which the traffic carried at the lowest rates fails to pay, either because at higher rates it would not be profitable to send it, or because it has access to a cheaper form of transport.

Classification

The railway companies then temper the wind to the shorn lamb by the establishment of what is known as a Classification—that is, a division of all the articles known to commerce into categories, based mainly on values, coal, iron ore, and dung coming at the bottom, tea and cotton cloth half way up, and silk and cigars at the top. If for the lowest class the rate is 1d. per ton per mile, it will probably be 3d. for the intermediate class and 6d. for the highest. Now it does not cost twice as much to carry a bale of silk or a chest of cigars as to carry a bale of grey shirtings. But whereas the latter may be worth £100 a ton, the value of the former may be 50 times as much. Railways being, as they are, a necessary of modern life, is it not reasonable and

in accordance with the accepted principle of taxation, as exemplified in our own graduated income-tax and the ad valorem Customs duties levied in most foreign countries, that more than a percentage proportion of the cost of providing the railways should be laid on commodities so valuable that the charge for their carriage never can amount to more than a fraction of their value—that is, that a larger than average share of the burden should be imposed upon the shoulders best able to bear it?

This principle of charging what the traffic will bear is really in no way peculiar to railways. Many other instances of its application in other fields than that of taxation can be given. Stockholders, auctioneers, and so on charge a fee based not upon the amount of work which the transaction involves, but on the value of the property to which the transaction relates. Solicitors in carrying through the transfer of property are required by statute to charge, not as in former days according to the length of the deed, which was supposed to be a rough measure of the cost of service, but fees calculated as a percentage of the value of the property. Indeed, one may say that in this instance cost of service as the basis of charge is deliberately set aside by Parliament, for it is not as a rule the large properties where the titles need the most careful investigation. One may even go on to point out that a doctor charges more for attending the master than attending his servant, though we may assume that he places his best skill equally at the service of both; and that a cemetery chaplain, acting presumably with episcopal sanction, charges different fees for reading the burial service according as the corpse is placed in the common earth, in a brick grave, or in a family vault.

But it is not therefore to be supposed that railway rates are based solely upon value of service. Cost of service also has to be taken into account. It is usually higher where the articles are more valuable, mainly because they are handled in much smaller consignments; but not always. Empty fruit baskets, for instance, are of small value and occupy space out of all proportion to their weight. They naturally therefore form a bone of chronic contention between the railways and the traders; the one side arguing justifiably that the rate should be high because the cost is great, and the other side arguing, equally justifiably, that the rate should be low because the value is small.

The Railway Catechism

Bearing then all these different considerations in mind, we may sum up the railway rates experts' catechism in the following precepts:

(1) Charge no rate so high as to stop the traffic passing, provided the rate be not so low as to cease to cover the extra cost of dealing with it.

(2) Distribute the general expenses incident to the business as a whole over the whole traffic, on the basis of a rough equality of sacrifice, up to the point where the total receipts cover the total expenses plus a reasonable return on the capital involved, corresponding to the accepted return on capital taking equal risks in an ordinary business.

(3) Always bear in mind that, though within limits the same required net return can be obtained by a large profit on a small turnover as by a small profit on a large turnover, the former policy has nothing to recommend it except that it saves the management trouble; the latter not only enures to the benefit of the public at large, but forms a stronger basis of security for the future welfare of the undertaking from the shareholders' point of view. Or, to translate this last precept into concrete form; keep up the fares for first-class passengers so long as you do not drive them into the third class, but reduce the fares for the mass of the people as far as you can afford to do so, even though this makes it necessary to run a larger number of trains to earn the same net revenue.

The Immediate Problems

It is by these principles that enlightened railway management is guided. But the British public has refused hitherto to entrust railway management to enlightened self-interest, and has thought it well hitherto to restrict the limits within which it may operate. The Statute-book contains whole series of Acts fixing maxima beyond which the companies may not charge. In 99 cases out of 100 these maxima have been superfluous; in the 100th case they have usually been harmful. Under the new Railways Act they will be swept away and replaced by a new system under which railway companies will in effect be authorized to charge such rates as they believe to be commercially justifiable, if and when they can obtain the sanction of an expert Tribunal after it has heard all that those who will have to pay the rates and fares can urge on the other side.

The railway companies in framing and the Tribunal in sanctioning the scales of rates and fares for the future have before them an extraordinarily difficult task. We have compared railway rates to taxation because they are adjusted in relation to ability to pay. But the analogy fails at an important point. Income-tax has to be paid if the taxpayer can pay. He is not asked whether he is willing. But railway rates and fares can be avoided by the simple method of not traveling or not consigning traffic. And our railways, in common with those of almost all other important countries, are to-day face to face with a novel situation. Working costs have risen enormously. Rates and fares have everywhere been put up to meet them. The increase since the war is estimated to be roughly 112 per cent in the case of goods and something like 100 per cent in the case of passengers. The percentage increases in America are hardly less. On the Continent they are far greater. Even at these rates railways in America are at present hardly covering their working expenses. On the Continent they are being worked at an actual loss.

Where our railways would stand if they could carry on for a consecutive six months without strikes it is difficult to say. But on all hands our railway men are wondering whether rates and fares can be profitably maintained at their present level—that is, whether they will not cause such a shrinkage of traffic that the railways in their own interest will find it desirable to reduce the general level. It is not only that traffic may fall off because in railway phrase it cannot bear the rate—in other words, that the railway rate absorbs all or almost all the margin between cost at the point of origin and selling price at destination—but also that no one yet knows what are the potentialities of road motor competition.

A Vision of the Future

It may be that we are on the eve of a revolution. Railways are as necessary as roads. And roads have long been recognized as public necessities to be provided mainly—till the last few years one might have said wholly—at public cost. For certain essential public services, for the carriage of bulk commodities of low value, and for long distance traffic of all kinds, we cannot imagine that railways will be superseded. The future may show, and not in England only, that it is necessary for the public purse to bear at least some portion of the cost of providing and maintaining our highways of steel just as it does now in the case of ordinary highways, leaving the charges made to the users to cover the remaining cost of provision and maintenance, and the whole cost of actual carriage.

This is in one sense a vision of the future. But once Parliament has accepted the principle of adjusting charges to revenue, and has provided that they shall be so fixed as to yield as far as practicable, with efficient and economical working and management, an annual net revenue equivalent to the prewar net return, the question has been brought within the scope of practical politics.